Journal Entry for Treasury Stock Purchase

When a company purchases its own stock (treasury stock), it reduces owners' equity. The journal entry depends on the accounting method used: the **cost method** (using a treasury stock contra-equity account) or the **par value method** (directly reducing the common stock account). Below are the journal entries for both methods.

1. Cost Method (Using Treasury Stock Contra-Equity Account)

Under the cost method, treasury stock is recorded at the cost paid to reacquire the shares, and a separate treasury stock account is debited as a contra-equity account.

Journal Entry:

Date: [Date of Purchase]

Debit: Treasury Stock $[Cost of Shares Purchased]

Credit: Cash $[Cost of Shares Purchased]

Explanation:

- **Treasury Stock (Debit)**: Represents the cost of the repurchased shares, reducing owners' equity as a contra-equity account.
- **Cash (Credit)**: Reflects the cash paid to acquire the treasury stock.

Example:
If a company repurchases 1,000 shares at $10 per share:

Date: [Date of Purchase]

Debit: Treasury Stock $10,000

Credit: Cash $10,000

2. Par Value Method (Directly Reducing Common Stock)

Under the par value method, the common stock account is reduced by the par value of the repurchased shares. Any excess of the purchase price over par value is debited to additional paid-in capital (APIC) or retained earnings.

Journal Entry:

Date: [Date of Purchase]

Debit: Common Stock $[Par Value of Shares]

Debit: Additional Paid-In Capital (or Retained Earnings) $[Excess Over Par Value]

Credit: Cash $[Total Cost of Shares Purchased]

Explanation:

- **Common Stock (Debit)**: Reduces the common stock account by the par value of the repurchased shares.
- **Additional Paid-In Capital or Retained Earnings (Debit)**: Accounts for any excess of the purchase price over the par value.
- **Cash (Credit)**: Reflects the cash paid to acquire the treasury stock.

Example:
If a company repurchases 1,000 shares with a par value of $1 per share at a cost of $10 per share:

Date: [Date of Purchase]

Debit: Common Stock $1,000

Debit: Additional Paid-In Capital (or Retained Earnings) $9,000

Credit: Cash $10,000

Notes:

- The choice of method (cost or par value) depends on the company's accounting policy and applicable accounting standards (e.g., U.S. GAAP or IFRS).
- Treasury stock is not considered an asset, liability, or equity but is presented as a reduction in owners' equity on the balance sheet.